Good morning, Chairman Hollings, Senator McCain, and Members of the Committee. I am Mel Karmazin, President and Chief Operating Officer of Viacom. Thank you for this opportunity to testify before you today on the topic of media consolidation and broadcast ownership.

Instead of "media consolidation," I prefer to call it media competition, because that's what consumers are enjoying today. Over the last decade, consumers have reaped the benefits of a tremendous amount of change in the media industry: the meteoric growth of cable, the explosion of the Internet, the expansion of broadcast networks from four to at least nine, the birth of DBS, and the proliferation of new media devices, such as cell phones and personal digital assistants, which are allowing consumers to access information when and how they want it.

It is no coincidence that this enormous growth in content and distribution platforms has taken place during a time of consolidation in our industry. Horizontal and vertical combination is businesses' response to consumers' ever-multiplying demands for more information and entertainment tailored to their lives. Given today's marketplace, we have seen content providers expand to keep up with the change: This personalization of information and entertainment is made economically possible through mergers, such as that between Viacom and CBS last year. Scale allows companies to accept risks associated with spiraling costs of programming, from the cost of talent to sports rights, and other costs, such as those required to market, brand and promote our products. And scale in the broadcast business brings consumers, *for free*, greater entertainment, sports and news programming choices than ever before.

If we are to understand the media industry, we cannot examine it in a vacuum. Because what happens in other industries unquestionably affects us in the media, particularly at companies like Viacom, where half of our revenues depend on advertising. As airlines merge, as banks merge, as consumer product companies merge, the number of our advertising customers also declines. Where before, for example, our company might have approached Airline X, Airline Y, and Airline Z as separate advertisers, we now have one fewer client and, as a result, one fewer source of advertising revenue. And, today, the agencies that represent the nation's advertisers have also declined, meaning that mergers in that industry have forced us in the media to negotiate with only a handful of firms for a crucial part of our business.

In a world where AOL and Time Warner can combine, where Comcast may end up owning AT&T's cable systems, and where News Corporation could control DirecTV, it is ironic that today's hearing focuses largely on maintaining harmful restrictions on the only news and information medium that remains free to all Americans —broadcasting. Right or wrong, subscription-based cable MSOs and DBS providers are permitted to operate without the myriad ownership restrictions that hinder broadcasters. Yet, in a cruel twist of fate, these pay television services rely on broadcast television as a key component of their offerings: some 80% of Americans now tune into their broadcast television stations through their cable or satellite provider. Thus, while the services that require American consumers to pay fees for access to them continue to consolidate largely unchecked, broadcasters, of which we are a proud member, face the prospect of being more and more marginalized. Television and radio broadcasting are the only media today that remain hamstrung by rules governing ownership —of television and radio stations locally and nationwide and of broadcast television networks— in ways that are far more onerous than those affecting their competitors.

Despite the hyper-competitive state of the television industry, it is bewildering and astounding that there is a debate raging anew here in Washington over the limits on national broadcast television station ownership, which currently prohibit a group owner from reaching more than 35% of television households. Some, including the broadcast networks (ABC, CBS, Fox and NBC), want these limits pared back or repealed. Others, including some of the largest media conglomerates in the United States (such as Post-Newsweek, Cox, Belo and Hearst-Argyle), which count among their holdings broadcast network-affiliated television stations, as well as newspapers, cable systems and radio stations, are fighting hard to retain the status quo.

The proponents of the status quo in this debate are clearly motivated by an overwhelming fear that their television business is changing and that freezing ownership at today's levels is the panacea. But we all must recognize that the broadcast business is dramatically changing all around us: Our audiences are dwindling, our margins are contracting and our share of advertising revenues is declining. The impact on consumers, who should be central to this debate, do not benefit from the status quo when it is irrational, anticompetitive, and an obstacle to expanded choice. After all, it is change and deregulation that have brought about the almost dizzying array of video and audio options Americans enjoy today.

History instructs us that the fear of change is best confronted with a generous helping of flexibility and an invigorating dose of innovation. For instance, take the radio industry in the early 1940s, when many feared that a gadget called television would steal away its audience. Well, the coming of television did affect the radio business, but not in the way those fearful of change imagined. Instead, innovative managers prodded radio to recreate itself in the face of television's competitive threat, changing it over time from a center-of-the-living room, sit-down form of entertainment to one that went with consumers as they pursued their daily activities. And, as such, radio prospered as never before.

Or look at the broadcast television industry in the 1950s, when it, in turn, feared a new technology that took TV station signals and delivered them by cable to homes too far away to receive them over the air. Broadcasters fought the new technology because they saw it as a threat to free, over-the-air television and localism. Yet, today, more consumers are able to watch over-the-air television stations with a clear, sharp picture than would ever have been possible using rooftop antennas and rabbit ears. And over-the-air television stations have profited as a result.

History teaches us that change is uncomfortable and unnerving to both government and business as we all undergo the turbulence of moving from the older to the newer technologies. But in the end, when the change has occurred, we see that consumers have benefited from the upheaval because they have been empowered as never before. With hundreds and hundreds of programming choices available at their fingertips, consumers are the final arbiters of which of these services will succeed and which will fail.

Change is something my company deals with day after day. At Viacom, our broadcast networks, our cable networks, our video rental business, our publishing arm, our movie studio, and our radio stations are all by necessity constantly practicing the arts of futurism and prognostication, trying to figure out the next new technologies, trends, and regulatory schemes, and strategizing as to how we will adapt our business models to keep them relevant in any given new environment. Obviously, Viacom is not alone. Any business that is to survive must be three steps ahead of the curve or risk obsolescence. This includes big media companies with newspaper and television interests like Belo, Cox, Hearst-Argyle and others, which have been pushing for relaxation of the current restrictions on common ownership of a daily newspaper and a television station in the same community as one way to realize necessary economies in the face of the continuing decline in newspaper circulation. These companies advocating for a liberalization of local restrictions are, of course, the very same ones fighting deregulation of television ownership on a nationwide basis.

I empathize with the frustration of these newspaper conglomerates — deregulation is important for each of our businesses. But the common ownership of two television stations and of multiple radio stations in a local market consolidates advertising revenues far less so than the combination of a daily newspaper and a television station in one market. Thus, lifting the newspaper limit should occur only after the national television cap is lifted, the dual network rule is modified and the local ownership limits on television and radio are relaxed. It is these latter changes that promise greater benefits to ensure the future viability of the free delivery of entertainment, news and information to the American public.

Over the last decade alone, a worldwide technological tsunami has crashed upon the world, flooding the broadcast industry with competition in unprecedented proportions. Broadcast radio now competes head-to-head with Internet radio websites that offer customized music, sports and news. Where offices once turned on a radio for background music, individual employees are now "tuning in" to favorite websites on their PCs for their all-day listening pleasure. And one day soon when wireless Internet access is ubiquitous, people driving in their cars may opt to listen to radio websites instead of their local broadcast radio stations. Satellite radio, which has been in the planning stages for years and is just now launching, is a new form of "radio" which will provide a subscriber with not just one program format as do traditional radio stations, but a whole range of them. Unlike traditional radio, which can reach only as far as a terrestrial broadcast signal, the new technology will let drivers travel far and wide without ever losing the clear reception of these satellite "stations."

As for broadcast television, it competes directly with cable, which was originally created only to serve as a conduit for broadcast signals. That service, subscribed to by nearly 70% of the country's households, has developed into a multi-channel video programming distribution platform that not only carries hundreds of cable networks but serves as a high-speed gateway to the Internet and the literally millions of websites that offer personalized entertainment, news, weather and sports. The World Wide Web itself, born around 1994, spawned nearly three million sites from 1999 to 2000 alone. Direct broadcast satellite, another competitor to broadcast television, delivers hundreds of crisp digital programming channels to more than 10% of the country and also offers high-speed Internet access.

In 1996, Congress fully recognized this formidable competition to broadcasters when it passed the Telecommunications Act. Among other deregulatory actions, that law eliminated all limits on the national ownership of radio stations, raised from 25% to 35% the national ownership limit on television stations while deleting the numerical cap of 12 stations, and mandated that the FCC review broadcast ownership rules every two years.

Those who fear the further deregulation of television often point to the state of broadcast radio ownership in an attempt to paint a bleak picture of media concentration. In so doing, they note that the largest radio station group owns some 1,200 stations, that this group and a handful of others control a large portion of the radio advertising market, and that stations in these groups play the same programming formats from central feeds in their distant, big-city headquarters.

While their raw numbers are accurate, they give a completely misleading picture of a radio industry that is in reality vibrantly competitive and is certainly more diverse than the industry serving consumers in the pre-Telecommunications Act era. There are more than 10,500 commercial AM and FM radio stations in this country, so the top group owns only about 11.4%. The fourth largest radio group in terms of numbers, Viacom's Infinity radio division, owns 184 stations, representing a mere 1.7% of all commercial radio stations. The audience for the average radio station in this country is miniscule. And, the radio advertising market is so small —totaling only about 8.5% of *all* ad expenditures nationwide across all media (newspapers, magazines, billboard, Internet, cable, television, etc.)— that even if a single entity owned *every* radio station in the country, it still would control only a small portion of the advertising pie. In fact, under an antitrust review, one owner could not buy every radio station nationwide, because there would be limits on the number of outlets that that party could own on a local basis. Newspapers, by the way, still garner about 21% of total ad spending.

And what of the argument that ownership consolidation limits the diversity of formats? No basis in fact whatsoever. That is because the multiple owner seeks to diversify formats in order to garner the widest cross-section of listeners.

All we need do is look at the radio scene here in Washington's own backyard to see this theory spun into practice. In 1993, the 53 commercial and noncommercial radio stations in the Washington, D.C. market were owned by 39 licensees, who offered 19 different formats. Today, five years after the Telecommunications Act's liberalization of the radio ownership rules, these 53 stations are owned by fewer licensees —27 to be exact. But these 27 offer more formats: 22 instead of 19, a nearly 16% increase. Radio listeners in Washington can now tune in to a Korean language station, a Mexican station, two ethnic stations, a full-time smooth jazz station and a business news station, none of which was available eight years ago or so.

Consumers in Columbia and Greenville, South Carolina enjoy even more diversity of formats —about 45-58% more than they could choose from before passage of the Telecommunications Act. Since 1993, the number of owners of radio stations in Columbia has decreased from 20 to 13, but the number of formats has increased from 11 to 16, including seven new formats and one new Spanish-language station. In Greenville in the same time period, the number of owners has gone from 27 to 23, but the number of formats has gone from 12 to 19, including ten new formats and two new Spanish-language stations. Radio programming, in short, has become more —not less— diverse, and consumers enjoy the fruits of Congress' deregulatory efforts. Moreover, broadcast radio is now better poised to compete with the new substitutes of the Internet and satellite radio.

As in the case of radio, we must parse the naysayers' arguments against deregulation of the national television ownership cap. Their primary contention, intended to incite fear among policymakers, is that localism will fall if the cap is lifted. Major media companies such as Cox, Belo and Hearst-Argyle —headquartered in

Atlanta, Dallas and New York, respectively— each operates tens of stations in markets very far flung from their home bases. Yet, somehow these huge media companies shamelessly argue that they are "local" in every market where they own a television station while we are not. This pretzel logic does not end there. These same companies further contend that because CBS, for example, has its headquarters in New York, the stations it owns in other markets cannot be "local," and decisions about local news and information must be orchestrated from corporate offices in New York. This despite the fact that CBS's local station in Boston is just as "local" as the station owned in that market by New York-based Hearst-Argyle.

In fact, all we need do is look at a sampling of states to see that television stations in only a minority of cases are even owned by companies headquartered in the same state. In Massachusetts, of the 13 commercial television stations licensed there, none is owned by a Massachusetts broadcaster. Of the 14 television stations in West Virginia, two are owned by in-state broadcasters. And in Kansas, only one of the 11 television stations is owned by a Kansas broadcaster.

The real story is that CBS, like every other broadcaster, knows that localism is what makes broadcasting unique and a worthy competitor in the burgeoning video programming marketplace. While offering local news and public affairs programming may make us good citizens, it is also no secret to networks, group owners and individual station owners that local programming is a key competitive advantage that attracts viewers and differentiates broadcast television from cable channels, which are distributed nationally. CBS' owned-and-operated stations individually determine how much news they will air, what stories they will run and when they air them. As with our Infinity radio stations, there is no corporate dictator in New York who orchestrates the stations' local news programs. In fact, it's quite the opposite. Our stations' news directors have complete freedom locally. This is a fundamental CBS policy. And it is good business.

On average, each of our CBS stations airs 25 hours of local news and public affairs programming each week, with actual amounts in some markets surpassing every other station. And our stations do not flinch from covering stories of local interest, even if it means preempting network programming. Just this past May in Minneapolis, for example, our WCCO-TV preempted three hours of primetime network programming to run an emergency weather newscast. For the past 20 years, WBZ, our Boston station, has preempted primetime network shows to air the Boston Children's Hospital Telethon. WBZ also aired complete coverage of Congressman Joe Moakley's funeral, preempting programming from 10 a.m. through 4:30 p.m.

Many of CBS's general managers, news directors and other staff were raised in the communities where they work and, as a result, know these communities intimately. For example, Peter Brown, the news director of WBZ in Boston was born in Newton, Massachusetts and has worked at our station for 19 years as of this Labor Day, having worked his way up the ranks. And Brian Jones, the general manager of KTVT in Dallas, graduated from Plano High School, attended the University of Texas and has spent all of his working life in the state. He has been with KTVT for 14 years and started there as the station's national sales manager.

In addition to covering local events, our stations heavily participate in public service activities. For example, for the past 10 years, KPIX in San Francisco and, for the past 20 years, WBZ in Boston, have separately aired an adoption series that features local children in need of adoption. The KPIX series has led to the adoption of 86% of the children featured.

As with radio, consolidation in the television industry can result in significant benefits to the consumer. Viacom's merger with CBS brought under one roof a group of television stations affiliated with UPN and a group affiliated with CBS, with overlap in six markets. In five of these duopoly markets, we are airing or are about to launch half-hour newscasts or hourly updates on stations where none existed. As a result, diversity has expanded in Boston, Dallas, Detroit, Miami and Pittsburgh, where viewers now have access to more unique local news, weather and sports.

The “localism-is-dead” issue, therefore, is a transparent distraction from the affiliates’ true fear: the inevitable change to the broadcast business model which has in the past delivered to affiliates a steady, now unrealistic level of revenue. Under the traditional business model over the past few decades, networks have not only provided affiliates with a multi-billion dollar schedule of entertainment, sports, news and public affairs —all free of charge— but also cash compensation for carrying that programming. This in addition to the commercial positions within network programming which are made available to affiliated stations to sell for their own account, producing advertising revenues over and above those which they receive from the sale of time during non-network programming —revenues which go straight to the bottom line.

Look behind the dust being kicked up in Washington by affiliates and what you see is a bold request for government creation of a world where the network bears the entire risk and expense of developing programming with no countervailing obligations on affiliates —such as simply fulfilling their contractual commitments to air this programming. If the affiliates get their way, the public will not, because networks will be discouraged from engaging in the even more expensive and riskier enterprise of creating new shows the public wants.

The broadcast network makes money through only one source, the sale of national advertising. Compare this single-revenue business model to the dual revenue stream of cable networks, with whom broadcast networks compete: A cable network relies on ad sales, too, but is also paid by cable operators for carriage of its programming —the exact opposite of the relationship which prevails between broadcast networks and their affiliates. Moreover, while the “Big 4” broadcast networks are prohibited from combining, cable networks are subject to absolutely no ownership restrictions.

Broadcast networks, which provide programming free to consumers and are limited by regulation in what other television stations or networks they can own, cannot continue to compete based on these old and outdated paradigms. When the profits made by the top fifteen cable networks dwarf the earnings of their over-the-air competitors, it is unrealistic to continue to restrict combinations between broadcast networks when no such restriction exists for cable networks. And when the profit margins of network-affiliated stations are several multiples of those of the networks that supply most of their programming, it is unrealistic and unfair to artificially restrict the number of local stations that the networks themselves can own to amortize their enormous programming costs.

With fewer viewers watching more expensive broadcast television programming and advertisers unwilling to spend more to pay for it, broadcasters must be permitted to participate in the economies of scale enjoyed by their competitors. For example, in addition to its operations in New York, CBS News staffs bureaus around the world to produce network news. If our company were able to own and operate another major broadcast network, we could use the combined resources to operate more efficiently and to provide more news more often on both networks —to all Americans and still free of charge. Even with two such networks under one roof, the combined ratings and advertising revenues would not come close to dominating the literally hundreds of remaining television programming competitors.

Maybe it’s the golden years of television that opponents of relaxing the national broadcast television station ownership cap really yearn for. And why not? Life was easier then for the few of us in the media business. Even in 1976, in the afterglow of those golden years, CBS, along with the only other broadcast networks at the time, ABC and NBC, claimed nine out of 10 viewers each night. The average home at that time had seven channels to choose from. And the VCR was not commercially available. That is a status quo any business would want to preserve.

Nostalgia may make us feel better for a time, but neither time nor technology stand still. Almost five years later, in 1980, there were 734 television stations, 21% of all homes subscribed to cable, 16 national cable networks existed, and the average home received nine channels of programming. In 1991, Americans could select from 33 channels of programming, the broadcast networks had lost one-third of their audience, and VCRs were in 70% of all homes.

Today, there are 1,663 TV stations, 9 broadcast networks, 70% of all homes subscribe to cable and another 10% pay for DBS. There are 281 national cable networks and the average home receives 54 channels of programming. A viewer can tune into several all-news cable channels, both national (such as CNN, MSNBC and the Fox News Channel) and regional (such as NY1 News in New York and News Channel 8 in Washington). Or a viewer can choose to watch an all-golf channel, an all-cooking channel, or an all-history channel. Or, perhaps, check in on the deliberations of this Committee on C-SPAN. And then there is the Internet, a medium none of us can ignore. According to the Pew Research Center, as many Americans —33%— receive their news from online sources as from broadcast networks. For younger people, the trend towards new media sources for news and information is even more pronounced: more college graduates under the age of 50 receive news from the Internet than from television news.

As a result of this robust competition, six of the broadcast networks today, the "Big Three" plus Fox, the WB and UPN, jointly garner only about 35% of TV households in prime time. Although the population of the United States has grown significantly, fewer people watched the final episode of *Seinfeld* in 1998 than watched the final episode of *M*A*S*H* in 1983. Whereas broadcast network television was once the common experience that bound the nation, it is now just one of a myriad of television programming choices.

In the aftershock of such seismic growth in competition, all broadcasters, networks and affiliates alike, should embrace change and join in advocating rules changes that will put us at regulatory parity with our competitors and help to preserve free, over-the-air television as a vibrant part of our remarkable media marketplace. Let's start with the fact that the 35% cap imposed on broadcast television is an unrealistic and arbitrary limit. Limiting broadcast television ownership doesn't affect competition or diversity in any market at all. Viewers watch stations only in their local markets, and consolidation in different markets has no impact on competition.

Congress in its wisdom has always understood that regulatory regimes must move in synch with the dynamism of competition. In the Telecommunications Act of 1996, Congress directed the FCC to review its rules on a biennial basis to "determine whether any of such rules are necessary to the public interest as a result of competition." Given the undeniably robust state of competition in the video marketplace today, it is unjustifiable that television broadcasters continue to be unfairly impaired by an onerous regulatory regime attached to no other telecommunications segment. Instead, television broadcasters must be positioned to withstand economic challenges, as businesses are now experiencing in this downturn, in order to compete against the ever-multiplying array of competitive video program distributors, and to commit the huge investments needed to make the transition to digital.

We therefore urge that the FCC make important changes in its upcoming biennial review. First, the national broadcast television ownership cap must be lifted. Second, one major broadcast network should be permitted to combine with another. And, third, local television and local radio ownership should be based on a percentage of the market, not on the number of stations and arbitrary numbers of "voices." We hope that this Committee will support the FCC as it undertakes these significant actions.

Eliminating ownership restrictions, which attempt to regulate by a prophylactic method that often ensnares the wrong targets, will not mean the end of any review of mergers, of course. Our nation's antitrust laws require intensive review by the Department of Justice or the Federal Trade Commission on a case-by-case basis to determine whether consumers will be harmed by a particular combination. These arms of the government, which have the authority and expertise to assess concentration, should be permitted to do their jobs rather than having arbitrary rules applied that may actually work against consumer's best interests. Such tailored assessments of the impact of media transactions promote, rather than stifle, competition.

There is only one status quo we should all fight to maintain, and that is the world-class quantity and quality of media choices available to Americans. A healthy broadcast industry that delivers entertainment, sports and news for free to all Americans is a critical element of our society and is only made possible by the incredibly competitive media landscape that is uniquely American. It should not be left to struggle under the weight of rules that favor a select group of broadcasters at the expense of the American viewing public.

The broadcast industry is at a critical juncture. This Committee has the opportunity to make an historic contribution by embracing the future and unlocking the shackles that threaten to extinguish broadcasting and its essential role in creating and maintaining an informed and diverse citizenry. We are prepared to take the economic risks to make this new world of choice a continuing reality and to follow your lead into a more competitive future that will result in empowering Americans more than at any time in the history of this great nation. Now is the time to reject interests of the few for the benefit of the many.

Thank you.